



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 21, 2003

H.R. 2738

A bill to implement the United States-Chile Free Trade Agreement

As ordered reported by the House Committee on the Judiciary on July 17, 2003

SUMMARY

H.R. 2738 would approve the free trade agreement (FTA) between the government of the United States and the government of Chile that was entered into on June 6, 2003. It would provide for tariff reductions and other changes in law related to implementation of the agreement, such as provisions dealing with dispute settlement, rules of origin, and safeguard measures for textile and apparel industries. The bill also would allow the temporary entry of certain business persons into the United States.

The Congressional Budget Office estimates that enacting the bill would reduce revenues by \$5 million in 2004, by \$38 million over the 2004-2008 period, and by \$109 million over the 2004-2013 period, net of income and payroll tax offsets. The bill would not have a significant effect on direct spending or spending subject to appropriation. CBO has determined that H.R. 2738 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2738 is shown in the following table.

	By Fiscal Year, in Millions of Dollars				
	2004	2005	2006	2007	2008
CHANGES IN REVENUES ^a					
Reductions in Tariff Rates	-5	-7	-8	-9	-10
Civil Penalties for Attestation Violations	*	*	*	*	*
Total	-5	-7	-8	-9	-10

a. H.R. 2738 also would affect direct spending and spending subject to appropriation, but the amounts of those changes would be less than \$500,000 a year.

* = Less than \$500,000.

BASIS OF ESTIMATE

Revenues

Under the United States-Chile agreement, all tariffs on U.S. imports from Chile would be phased out over time. The tariffs would be phased out for individual products at varying rates according to one of several different timetables ranging from immediate elimination to partial elimination over 10 years. According to the U.S. International Trade Commission (USITC), the U.S. collected \$24 million in customs duties in 2002 on about \$3.6 billion of imports from Chile. These imports consist mostly of edible fruits and nuts, articles of wood or copper, fish and crustaceans, and certain organic chemicals. Based on these data, CBO estimates that phasing out tariff rates as outlined in the U.S.-Chile agreement would reduce revenues by \$5 million in 2004, by \$38 million over the 2004-2008 period, and by \$109 million over the 2004-2013 period, net of income and payroll tax offsets.

This estimate includes the effects of increased imports from Chile that would result from the reduced prices of imported products in the United States, reflecting the lower tariff rates. It is likely that some of the increase in U.S. imports from Chile would displace imports from other countries. In the absence of specific data on the extent of this substitution effect, CBO assumes that an amount equal to one-half of the increase in U.S. imports from Chile would displace imports from other countries.

H.R. 2738 would also allow the Secretary of Labor to assess civil monetary penalties on employers for violations of the labor attestation process with respect to certain workers from

Chile. CBO expects that any additional revenues collected as a result would amount to less than \$500,000 in any year.

Direct Spending

Title IV of the bill would establish a new nonimmigrant category for certain professional workers from Chile. The legislation would limit the number of annual entries under this category to 1,400, plus spouses and children. The Bureau of Citizenship and Immigration Services (BCIS) would charge fees of about \$100 to provide nonimmigrant visas, so CBO estimates that the agency would collect less than \$1 million annually in offsetting receipts (a credit against direct spending). The agency is authorized to spend such fees without further appropriation, so the net impact on BCIS spending would not be significant.

Under current law, the Department of State also collects \$100 application fee for nonimmigrant visas. These collections are spent on border security and consular functions. CBO estimates that the net budgetary impact would be less than \$500,000 a year.

Spending Subject to Appropriation

Title I of H.R. 2738 would authorize the appropriation the necessary funds for the Department of Commerce to pay the United States' share of the costs of the dispute settlement procedures established by the agreement. Based on information from the agency, CBO estimates that implementing this provision would cost \$100,000 in 2004, and \$250,000 in each of the following years, subject to the availability of appropriated funds.

Title III would require the International Trade Commission (ITC) to investigate claims of injury to domestic industries as a result of the FTA. The ITC would have 120 days to determine whether a domestic industry has been injured, and if so, would recommend the necessary amount of import relief. The ITC would also submit a report on its determination to the President. According to the ITC, similar FTAs have resulted in only a handful of cases each year, at an average cost of about \$200,000 per investigation. Based on this information, CBO estimates the bill would have no significant effect on spending subject to appropriation.

SUMMARY OF EFFECT ON REVENUES AND DIRECT SPENDING

The overall effects of H.R. 2738 on revenues and direct spending are shown in the following table.

	By Fiscal Year, In Millions of Dollars										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Changes in receipts	0	-5	-7	-8	-9	-10	-11	-13	-14	-16	-18
Changes in outlays	*	*	*	*	*	*	*	*	*	*	*

* = Less than \$500,000.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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